




Montana State Fund Portal

http://www.montanastatefund.com



2004 Annual Report

From the Chairman

New Initiatives

Financial Strength

President's Message

Setting Our Sites

On the Future

Connecting With Our Customers

In Search of Safety

Financials

Report of Management

Quick Facts/Board of Directors

Sign up

Log in

From the Chairman

President's Message

Setting Our Sites

Connecting With Customers/In Search of Safety

Financials

Report of Management

Quick Facts/Board of Directors


## A Message from the Chairman

On behalf of the Board of Directors, it gives me great pleasure to share with you the accomplishments of Montana State Fund for FY 2004. Montana State Fund has led the way in providing workers' compensation insurance coverage to Montana businesses since 1990. Throughout the years, we have met the ever-changing needs of our customers, and we will continue to do so. It's our firm belief that a competitive state fund must be a stabilizing force in the marketplace. It is of paramount importance to all businesses in Montana that there is a reliable, stable workers' compensation system in place for this essential and mandatory coverage. Montana State Fund is that organization.


Montana State Fund employees have remained focused on delivering the best product and service possible to policyholders and their injured employees. As you will read in this report, we have undertaken a number of initiatives that will result in higher efficiencies, lower costs and improved delivery of our services.

By maintaining our financial strength and stability, we continue to deliver the highest quality workers' compensation insurance at competitive prices. The growth we are experiencing in premiums and policyholders poses both a challenge and an opportunity for our organization. We understand the critical role we play in the economic and social well-being of the citizens of our state. It is a responsibility that we gladly accept, and it's what separates us from the other insurance carriers that operate in Montana.

We thank you for your continued support.



Herbert Leuprecht, Chairman



President's Message .....2

Setting Our Sites

On the Future.....5

Connecting With

Our Customers.....6

In Search of Safety .....7

Financials .....8

Report of Management .....10

Quick Facts .....12

Check out MSF's  
new on-line  
payroll reporting  
system!





## 2004 Annual Report

## From the Chairman

## President's Message

## ► Managing Growth

## Setting Our Sites

## On the Future

## ► Web Portal

## ► Online FROI Form

## ► Health-e-Web

## ► msfsafetytrainer.com

## Connecting With

## Our Customers

## In Search of Safety

## Financials

## Report of Management

## Quick Facts/

## Board of Directors

## Managing Growth

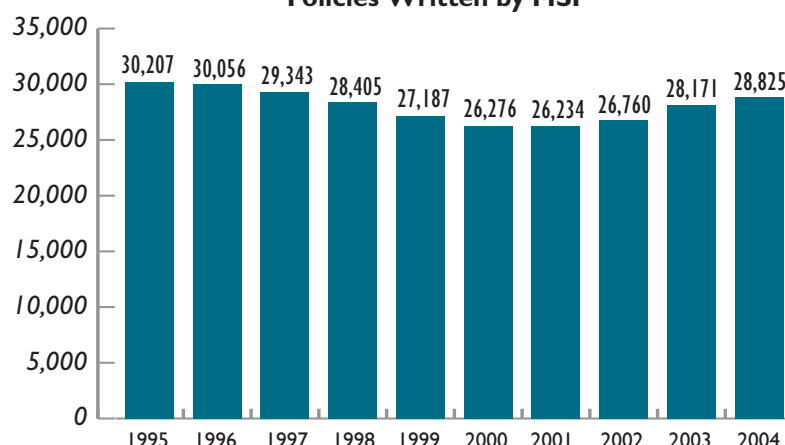
By dedicating our organization's energy towards a common purpose, we can produce powerful results. Each and every year we undergo a comprehensive organizational review, looking for improvements and new ways in which we can provide services to our customers. We've learned to imagine what we want our future to be, and identified the steps to get us there. It is incumbent upon any organization to face their challenges with a clear understanding of the tasks at hand, develop a blueprint for improvement, and follow through with well-planned and measurable actions.

In the past few years, we have experienced a doubling of our premium volume, and a 12% increase in overall policyholders. We know that it's important to maintain superior service levels to respond to all our customer needs. We have made an investment in both technology and staffing to continue providing superior levels of service. In our most recent policyholder survey, we have found that when comparing Montana State Fund to private insurance providers, our customers believe that MSF continues to stand out clearly and positively with respect to customer service and coverage. Montana State Fund is 260 dedicated individuals who work together as a team to achieve meaningful results. We are a dynamic organization that is constantly fine tuning itself to maintain our status as Montana's insurance carrier of choice and industry leader in service.

As a public, non-profit entity, we exist solely to provide Montana employers and their employees with competitively priced coverage, no matter what challenges face the insurance industry. Our vision focuses on our commitment to the health and prosperity of our state. It goes to the core of who we are, and is the key to our ongoing success.

Laurence Hubbard  
President/CEO

## Policies Written by MSF



*As the guaranteed market, MSF insures any Montana business, offering employers a stable, locally controlled, reliable and competitively priced source for workers' compensation insurance.*

## Setting Our Sites On the Future

At MSF, our 260 employees are constantly striving to be online with our customers' needs. We recognize the importance our policyholders place on being able to conduct business transactions in a web-based environment. That is why we implemented our redesigned [montanastatefund.com](http://montanastatefund.com) website with state-of-the-art portal technology. The portal gives our customers the ability to obtain their unique information whenever they want it.

For policyholders, it means instant, accurate and detailed information about their account. For agents, it provides tools to service their customers by helping them manage their accounts more effectively. For injured employees, it helps guide them through the services and programs available to assist them in getting well and back to work. There is also a totally new section for medical providers, affording them access to important information regarding training, benefits and legal issues. Recent survey results conducted by an independent consulting firm found that our efforts to improve our site are paying off. The vast majority of our customers (90%) have Internet access at their business and visitation to our web has significantly increased since the revamp.

Our policyholders also expressed the need to file First Report of Injury (FROI) forms online. We are proud to say the portal launch incorporated this feature. Online reporting saves our policyholders time and money and gets the claims process moving faster so that our injured employees receive appropriate care to heal and get back to work sooner.

The ease of doing business via the Internet was extended to our medical providers in FY04. MSF formed a strategic partnership with Health-e-Web (HeW) that allowed providers to submit their bills electronically and get paid faster. Bills that used to take 25-40 days to process now take 5-10 days.

Not only did we improve the number of safety educational materials available on our web, we also created [www.msfsafetytrainer.com](http://www.msfsafetytrainer.com). This Internet-based training system offers our policyholders and their employees an easy-to-use approach they can use right at their desks. This type of training saves time and costs less than most traditional teaching methods. There are over 195 safety and human resource courses our customers can choose from to help them with their safety programs.



*"The new MSF portal system is the best tool you have added to your website since I became an agent with MSF. The process makes it easy for me to access claims, premium, and account status. Information that used to take days to acquire from phone calls and faxes is now accomplished in less time. This feature allows for overall better customer service."*

*Tom McCauley, agent with Western States Insurance in Missoula*

• 90% of our customers have Internet access at their businesses.

• Electronic billing allows for faster payment.

- From the Chairman
- President's Message
- Setting Our Sites  
On the Future
- Connecting With  
Our Customers
  - ▶ Renewal Packet
  - ▶ Agriculture Manual
  - ▶ Benefits Brochure
  - ▶ Agent Contact
  - ▶ Ad Campaign
- In Search of Safety
  - ▶ Web-Based Info
  - ▶ SMCs
  - ▶ Safety Seminars
- Financials
- Report of Management
- Quick Facts/  
Board of Directors

## Connecting With Our Customers

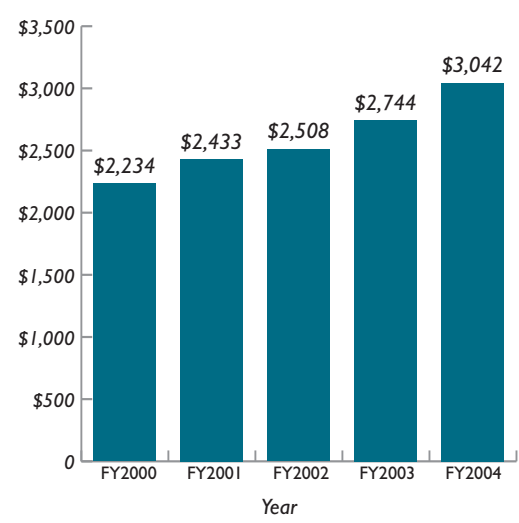
We understand that workers' compensation issues can be mind boggling for many of our customers. For that reason, we go to great lengths to communicate our message in a clear concise manner and listen to our customers' concerns and requests. Due to feedback from our 2002 customer survey, we created a number of useful and practical publications in FY04. For policyholders, an audit brochure that lays out the audit process in a simple manner was devised. We developed the "Renew Your Vows of Safety" information packet to educate our customers on a variety of issues critical to their policy. And a new "Montana Agricultural Safety Manual" was conceived to keep our agricultural policyholders safe on the farm and ranch.

Injured workers were looking for material that better explained their benefits. A revised Workers' Compensation Benefits brochure now helps these individuals cut through the claims process and work with our adjusters and their medical providers to heal faster so they can get back to work.

Open communications with our partnering independent Montana insurance agents is another essential element of our business. We keep agents abreast of critical issues through a quarterly electronic newsletter *Partnership Update*. More timely topics are quickly sent in the form of the electronic *Partnership Alert*.

Since 2000, medical costs have risen by an average of 7.7% a year, far outpacing inflation.

Average Medical Cost per Claim Paid by MSF  
Based on Tillinghast FY2005 Rate Report Best Estimate



Participation in safety workshops was up 75% from FY03.

## In Search of Safety

When it comes to providing quality safety-education programs, our customers don't have far to search. Our staff is committed to keeping our policyholders and their employees injury free. From the Internet to one-on-one contact, we provide a number of safety service programs our customers can use. Safety Management Consultants (SMC's) are our key safety specialists. They are strategically located throughout the state to provide policyholders and their workers with the right safety information for their business needs. In FY04, 1,957 policyholders were visited by an SMC. This is a 21% increase from FY03.

Our free safety workshops are another valuable tool for Montana business owners. These trainings, which are conducted throughout the year in a number of communities, provide a variety of safety tips and tools to help enhance a company's safety program. The trainings are open to any Montana employer, not just MSF policyholders. Over 770 Montana employers attended 74 workshops in FY04. This is a 75% increase in participation from FY03.



For the sixth consecutive year, the Montana State Fund Board authorized a dividend payment to qualifying policyholders with exemplary safety records. The Board approved a \$2 million dividend distribution. Nearly 12,000 policyholders of record were eligible to receive the dividend. Since 1998, \$33 million has been returned to deserving policyholders.



## From the Chairman

## President's Message

## Setting Our Sites

## On the Future

## Connecting With Our Customers

## In Search of Safety

## Financials

- ▶ Assets and Liabilities
- ▶ Operations

## Report of Management

### Quick Facts/

## Board of Directors

as of June 30,

## ADMITTED ASSETS

	2004	2003
INVESTMENTS		
Bonds	\$499,090,381	\$436,818,298
Equity Securities	72,138,374	69,958,153
Cash and Short-Term Investments	20,685,046	32,150,786
Other Investments - Collateral Securities on Loan	<u>141,060,425</u>	<u>30,968,721</u>
Total Investments and Cash	732,974,226	569,895,958
OTHER ADMITTED ASSETS		
Premium Receivables	7,818,889	7,354,843
Equipment (net)	962,632	815,820
Interest Receivable	7,520,657	6,586,054
Other Assets	<u>532,037</u>	<u>186,713</u>
Total Admitted Assets	<u>\$749,808,441</u>	<u>\$584,839,388</u>

## LIABILITIES AND SURPLUS

LIABILITIES		
Losses Incurred Reserves	\$410,090,000	\$372,300,000
Loss Adjustment Expense Reserves	42,025,000	41,100,000
Liability for Securities on Loan	141,060,425	30,968,721
Deferred Revenue	5,977,233	202,912
Other Liabilities	<u>23,163,627</u>	<u>18,668,338</u>
Total Liabilities	622,316,285	463,239,971

## CONTINGENCIES AND SUBSEQUENT EVENTS

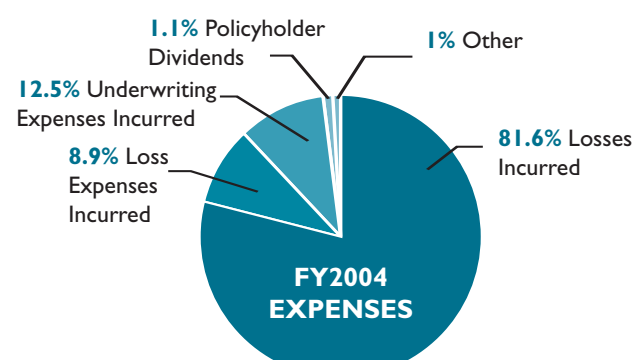
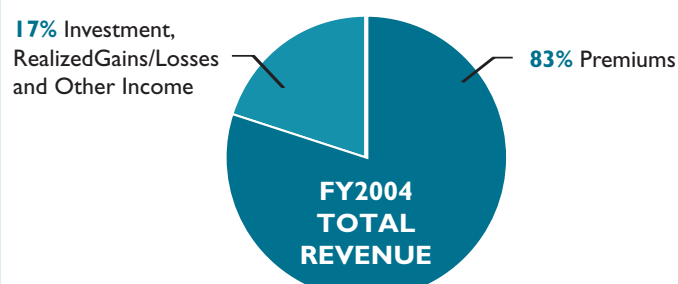
**SURPLUS**

Policyholders' Surplus	127,492,156	121,599,417
Total Liabilities and Surplus	<u>\$749,808,441</u>	<u>\$584,839,388</u>

for the years ended June 30,

	2004	2003
Net Premium Earned	\$139,360,612	\$117,776,580
Losses Incurred	(136,267,288)	(146,912,095)
Loss Expenses Incurred	(14,869,190)	(16,074,946)
Underwriting Expenses Incurred	(20,841,166)	(17,559,701)
Net Underwriting Loss	<u>\$(32,617,032)</u>	<u>\$(62,770,162)</u>
Net Investment Income Earned	26,562,859	26,799,946
Net Realized Capital Gains (Losses)	1,103,132	2,126,151
Premium Balances Recovered (Charged Off)	(1,200,914)	(686,078)
Other Income	(202,031)	16,796
Net Income (Loss) Before Dividends	<u>(6,353,986)</u>	<u>(34,513,347)</u>
Policyholder Dividends	<u>(1,909,856)</u>	<u>(2,949,597)</u>
Net Income (Loss) After Dividends	<u>(8,263,842)</u>	<u>(37,462,944)</u>
Prior Year End Surplus	121,599,417	158,498,995
Net Unrealized Gains (Losses) on Equity Securities	12,773,545	777,514
Change in Nonadmitted Assets	1,403,739	(156,802)
Aggregate Write In for Gains (Losses) in Surplus	(10,485)	(56,058)
Transfer In (Out), net	<u>(10,218)</u>	<u>(1,288)</u>
END OF PERIOD SURPLUS	\$127,492,156	\$121,599,417

*Complete audited financial information is available at [www.montanastatefund.com](http://www.montanastatefund.com) or upon request.*



2004 Annual Report

[From the Chairman](#)

[President's Message](#)

[Setting Our Sites](#)

[On the Future](#)

[Connecting With Our Customers](#)

[In Search of Safety](#)

[Financials](#)

[Report of Management](#)

[► Explanation of Report](#)

[Quick Facts/ Board of Directors](#)

# Report of Management

The management of Montana State Fund (MSF) is responsible for the financial statements and all other information presented in this Annual Report. MSF maintains a system of internal control designed to provide reasonable assurance that assets are safeguarded against loss and that transactions are executed and recorded in accordance with management's authorization. This system encompasses the organizational structure, selection and training of personnel, communication and enforcement of policies and procedures, and ongoing internal and external audit programs. Internal controls are continually reviewed and evaluated by management.

The financial statements are presented for our fiscal year ending June 30, 2004 and 2003 and include amounts based on the best estimates and judgments of management. These financial results are presented on a statutory basis, which is consistent with insurance industry financial statement presentation. MSF governs, operates and completes its financial reporting as an insurance company domiciled in the State of Montana, and its financial statements are presented on the basis of accounting practices prescribed or permitted by the Montana Insurance Department.

The statements included in this annual report should not be considered complete audited financial statements. The statements presented are representative of audited financial statements as audited by Galusha, Higgins & Galusha, an independent public accounting firm. Galusha, Higgins & Galusha issued an unqualified opinion on MSF's statutory financial statements. The complete audited financial statements including the accompanying notes are available upon request. The preparation and independent external audit of statutory financial statements is discretionary on the part of MSF, but one that is seen as important. By evaluating the financial results of MSF in comparison to other insurers aids in assessing and maintaining the financial security and stability of MSF as a workers' compensation insurer. In addition, MSF is a component unit of the State of Montana. As required in law the Legislative Audit Division (LAD) of the State of Montana conducts independent audits of financial statements of MSF presented in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). For the financial periods ending June 30, 2004 and 2003, MSF received an unqualified audit opinion from the LAD. The audited governmental financial statements and the related audit opinion are issued under separate cover. To obtain a copy of the full governmental financial statements, contact the Legislative Audit Division. The presentation of the statutory financial statements in this report differs from the governmental presentation basis (GASB). A financial reconciliation of surplus between the audited GASB financial statements and the audited statutory financial statements presented in this report is provided below.

## The following is a Comparison of Statutory Accounting Ending Surplus to GASB Ending Net Assets for the year ended June 30, 2004 (in 000's).

GASB Ending Surplus	\$142,772
Reconciling Items:	
Unrealized Gains on Fixed Income Securities	(14,149)
Cumulative Affect of Unrealized Loss on Equities	3,732
Cumulative Affect of Non-Admitted Assets	(5,273)
Other (Deferred Acquisition Costs, etc.)	<u>412</u>
Statutory Accounting Ending Surplus	\$127,492

















2004 Annual Report

- From the Chairman
- President's Message
- Setting Our Sites  
On the Future
- Connecting With  
Our Customers
- In Search of Safety
- Financials
- Report of Management
- Quick Facts/  
Board of Directors
- ▶ Quick Facts
- ▶ Board of Directors
- ▶ Executive Team

## Quick Facts

AS OF JUNE 30, 2004

	Total Earned Premium	\$139,360,612
	Number of Policies Serviced	30,482
	Total Number of Claims Processed	14,029
	Number of FTEs	267.5
	Investment Income	\$27,665,591
	Net Income (Loss) Before Dividend	(\$6,353,986)
	Policyholders Dividend	\$1,909,856
	Loss Reserves	\$452,115,000
	Surplus	\$127,492,156
	Reserves to Surplus Ratio (after dividend)	3.55
	Premium to Surplus Ratio (after dividend)	1.09
	Total Fraud Savings Since Inception	\$19,141,169
	Compensation Benefits Paid	\$43,443,675
	Medical Benefits Paid	\$55,076,101

## Board of Directors



Mark Cole  
Shelby



Derek Grewatz  
Missoula



Ed Henrich  
Fairmont



Laurence Hubbard  
Ex-Officio, Helena



Herbert Leuprecht  
Butte



Mardi Madsen  
Billings



Jack Morgenstern  
Lewistown



Derek Scoble  
Clancy

The Board of Directors is appointed by the Governor.

## Executive Team



Standing: Peter Strauss, Vice President Insurance Operations Support; Layne Kertamus, Vice President Insurance Operations; Nancy Butler, General Counsel; Sandy Leyva, Interim CIO; Sherrie Handel, Special Assistant to the President; Tony Johnson, Vice President Human Resources  
Seated: Mark Barry, Vice President Corporate Support; Laurence Hubbard, President

## Highlights

- MSF awarded a dividend for the 6th consecutive year. Since 1998, \$33 million has been returned to deserving policyholders with superior safety records.
- The ACE (Assisting Charitable Endeavors) program awarded \$31,595 to 19 worthy projects. ACE makes matching funds available to qualifying Montana non-profit organizations and associations that contribute to both the safety and community well-being in our state.
- The Scholarship program assists children and spouses of workers who were fatally injured in a work-related accident. Twelve scholarships were awarded. While nothing can replace the untimely loss of a loved one, we believe that this scholarship program provides an additional benefit for those who are most affected by such a significant loss.
- Efforts of Special Investigations Unit (Fraud) have saved MSF over \$19 million in fraudulent claims since the program's inception in 1993.
- 773 Montana employers attended 74 MSF safety trainings held throughout the state; a 75% increase from 2003.
- Safety Management Consultants visited 1,957 policyholders in the past year; a 21% increase over the previous year.
- The Pharmacy Benefit Management program saves policyholders \$2 million a year.
- Our newsletter, *Perspectives*, received a 2nd place award in the category of newsletter/external audience from the American Association of State Compensation Insurance Funds. Over 30,000 policyholders, medical providers, insurance agents, legislators and other interested parties receive the quarterly publication.
- "Traumatic Brain Injuries" was the subject of the 3rd annual education conference. Over 150 medical providers and workers' compensation professionals from across Montana attended the day-long seminar.



5 South Last Chance Gulch  
P.O. Box 4759  
Helena, MT 59604-4759  
800-332-6102  
(406) 444-6500  
Fax: (406) 444-5963  
montanastatefund.com